BREWIN DOLPHIN

Insight

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A decisive outcome from the EU Referendum - what could lie ahead?

The momentous decision by the UK to vote to leave the European Union, popularly known as Brexit, is a step into the unknown. At this stage the longer-term consequences for the markets, economy and British and European politics are difficult to predict. The country is likely to enter a large period of negotiation around the terms of the exit.

In the shorter-term we can expect share, bond and currency markets to be extremely volatile – not just in the UK but globally. In the days leading up to the referendum, sterling and global stock markets strengthened in the mistaken belief that the UK would opt to remain in the EU. Now, as markets re-adjust to the new reality we can expect extreme turbulence in financial markets.

We know this might be a cause of concern for clients, though it is important to recognise that the volatility will not last and markets will find their feet again. In the meantime, our investment portfolios are well placed to weather the short-term volatility. We will also be seeking out opportunities thrown up by the turbulence and will be quick to react when growth opportunities emerge.

What happens next?

The vote to leave sets in motion a process that will trigger Article 50 of the Lisbon Treaty, the formal mechanism for withdrawal from the EU. Unless a withdrawal agreement is reached earlier, this will start a two year period of negotiation. During that time the UK will still be a member of the EU and bound by its rules and treaties.

Interest rates, sterling and the economy

Before the referendum even the most enthusiastic exit campaigners admitted that a Leave vote would have a short-term negative impact on UK economic growth. As a result, UK interest rates are likely to remain on hold for longer than previously expected: markets do not foresee interest rates rising above current levels until 2020[1]. If the impact on the economy warrants it, the Bank of England could even cut rates in an attempt to shore up the economy.

Lower interest rates tend to discourage investors from holding the pound so we can expect sterling to weaken.

Attempts to forecast the longer-term economic consequences are complicated by the lack of clarity about the UK's future trading arrangements. However, while the UK's position in the world remains unclear, investment into the UK is likely to be delayed or reduced. If this is prolonged, this could lead to higher unemployment, lower consumer confidence and a longer-term economic shock.

The impact on investment

Investors must be prepared for volatility in UK and global financial markets in the short-term. However, we think UK shares will offer some protection against any exit convulsions.

Rob Burgeman, investment manager and divisional director at Brewin Dolphin, says: “There will, undoubtedly be winners and losers, but the international nature of the UK market should have its own reward.

“After all, the drivers for Diageo, Unilever and Royal Dutch Shell are not governed by whether the UK remains inside or outside of the European Union. Indeed, any weakness in sterling is likely to see the reported profits of these companies increase and, equally importantly, their dividends.”

There remains little reason for international growth to suffer as a result of Britain’s decision, unless the issue begins to impact the eurozone recovery. Other global factors, such as the Chinese economy, the direction of US interest rates and commodity prices, are likely to be more significant drivers of financial markets in the year ahead.

No change in strategy

With a heritage spanning over 250 years Brewin Dolphin has seen many challenging financial and economic times before. The potential impact of this decision does not prompt us to change our investment strategy in isolation.

At the core of our investment philosophy is a belief in the importance of a balance of assets, also known as a diversified portfolio. This focus on quality, global companies should allow us to weather market volatility over the medium-term.

However, we will remain alert to market conditions and quick to react when growth opportunities emerge. Any weakness of globally diversified equities will be grasped as an opportunity to invest cash.

This decision is a step into the unknown but our investment managers and financial planners have a wealth of experience to navigate what lies ahead on your behalf. If you would like to discuss the implications of the Leave vote or any other investment or financial matters please call 020 3201 3900 or contact your local Brewin Dolphin office and we will be delighted to help you.

1 Telegraph.co.uk *‘No interest rate rise before 2020’, as limp inflation and Brexit clouds gather*, 14 June 2016